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China's Vegetable Oil Industry

**Prepared by the Canadian Embassy, Beijing
in consultation with BeSeen Consulting Ltd**

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1. Overview

Vegetable oil consumption in China has doubled in the last 10 years to approximately 12 million tons and is expected to continue to increase at the rate of 500-600,000 tons per year. In recent years domestic oil production has been supplemented by imports of nearly 2 million tons of mainly palm oil but also some soybean and canola oil.

The WTO agreement represents an excellent opportunity for Canada to develop long term business for canola oil in China. Potential constraints to this business development include the nature of the TRQ administration process once it is made public and the potential impact of the newly announced implementing regulations for GMO products.

2. Impact of WTO agreement

China's December 2001 accession to the WTO will have a significant impact on the oilseed and vegetable oil industry in China. The Tariff Rate Quotas (TRQ's) agreed in the WTO are as follows:

	Vegetable oil TRQ's (000 tons)				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
canola oil	879	1018	1126	1243	unlimited
soybean oil	2518	2818	3118	3587	unlimited
palm oil	2400	2600	2700	3168	unlimited

Note: TRQ's will be eliminated January 1, 2006

From the above table it can be seen that some 5.8 million tons of vegetable oils can be imported in 2002 under the TRQ tariff of 9 percent.

This will increase to about 8 million tons by 2005 and the quotas will be completely eliminated on January 1, 2006 leaving only the 9% tariff rate.

In addition to the TRQ's on canola oil, the WTO agreement sets trading limits for State Trading Enterprises (STE's) as a means to encourage a more open and competitive trading environment. For canola oil, STE's will be limited to 34% of the TRQ in 2002 and decreasing to 10% in 2005.

The TRQ administrative procedures were scheduled to be in place in late 2001 but have not yet been published.

3. Vegetable oil consumption

The rapid economic growth in the past 20 years has resulted in exceptionally strong increases in edible oil consumption in China. In 2000, total edible oil consumption was 12.4 million tons with rapeseed oil accounting for 34%, soybean oil 25%, peanut oil 16%, palm oil 12%, and cottonseed oil 7%.

The table below shows oil consumption for the five major vegetable oils during the past 5 years. During this period vegetable oil consumption increased by approximately 30% overall and rapeseed oil consumption increased by 41%. Vegetable oil consumption in China has doubled during the past 10 years.

China's Vegetable Oil Consumption, 1996 - 2000

Year	Rapeseed oil	Soybean oil	Peanut oil	Palm oil	Cotton seed oil	Unit: 1,000 tons
						total
1996	2969	2420	1592	1250	907	9138
1997	3274	2650	1645	1300	945	9814
1998	3325	2840	1918	1275	963	10,321
1999	4225	2990	2020	1200	850	11,285
2000	4190	3170	2020	1500	862	11,742

note: does not include some minor vegetable oils

It is estimated that the direct edible oil consumption for household and restaurant consumption in China is about 10 million tons per year with the remainder being used in the food processing industry.

4. China's imports of vegetable oil and oilseeds

During the past 5 years, China's imports of vegetable oil and oilseeds have changed dramatically. Palm oil imports traditionally account for a large share due to market demand and competitive prices, and in recent years have been just over 1 million tons annually. Imports of rapeseed oil and soybean oil decreased significantly in recent years according to Chinese statistics.

The import of rapeseed began only in 1997 but increased rapidly to nearly 3 million tons by 2000. The increasing importation of rapeseed is mainly due to the increased oil crushing capacity in China and the growing demand for quality rapeseed oil for human consumption.

China's imports of vegetable oil and oilseeds, 1996 – 2000

Year	Unit: 1,000 tons				
	Rapeseed imports	Soybean imports	Rapeseed oil imports	Soybean oil imports	Palm oil imports
1996	-	1,110	316	1170	1012
1997	55	2,890	351	670	1146
1998	1,386	3,200	285	650	930
1999	2,595	4,320	69	750	1194
2000	2,969	10,420	75	270	1397

The increasing oil crushing and processing capacity attracted rapid expansion of soybean imports which have increased to over 10,000 tons, about two-thirds of the volume of domestic soybean production. In 2000, the Chinese government implemented the value-added tax on imported soybean meal, which strongly supported soybean imports and discouraged imports of soybean meal. The fast developing livestock industry in China also demands an increasing supply of high protein feed, and soybean meal is a major source of feed protein.

Some industry specialists suggest that there is a good opportunity for the Canadian canola meal. The traditional rapeseed meal with high levels of erucic acid and glucosinolates can only be added to animal feeds at a low percentage while canola meal, with low levels of glucosinolates and erucic acid, can be added to the animal feed at a much higher percentage.

In terms of shipping, rapeseed and soybeans are shipped to China on large vessels with a volume of 30,000 – 50,000 tons. Most Chinese ports can load and unload the ships directly and the product can be transferred to the crushers via rail or truck, or can be stored at port warehouses.

5. Oil Seed Production

In recent years there has been considerable restructuring of crop production in China primarily as a result of regional oversupply in grains and/or cotton. In order to maintain income levels for the farming households, producing more oilseed crops was a logical choice. At the same time, rapidly increasing demand for vegetable oils and corresponding increases in crushing and processing capacity for oilseeds in the past 4 - 5 years, has provided incentive for increasing production of oilseed crops.

Output of oilseeds in China, 1996 - 2000

year	Unit: million mt							total
	Rape seed	Peanuts	Sesame seeds	Sunflower seeds	Flax seed	Soybean	Cotton seeds*	
1996	9.2	10.1	.6	1.3	.6	13.2	7.1	42.1
1997	9.6	9.7	.6	1.2	.4	14.7	7.8	44.0
1998	8.3	11.9	.6	1.5	.5	15.2	7.6	45.6
1999	10.1	12.6	.7	1.8	.4	14.3	6.5	46.4
2000	11.4	14.4	.8	2.0	.3	15.4	7.5	51.8

* Cottonseeds are used for crushing edible oil traditionally in the cotton production areas. This table lists cottonseeds as one source for edible oil.

The provinces in southern China reduced the acreage for wheat and early rice and increased the production of rapeseed, farmers in the Yellow River and Huai River areas reduced acreage of cotton and corn and increased production of peanuts, while the farmers in the northwestern region reduced the acreage of corn and produced more sunflower

6. Regional oilseed production

Rapeseed production is primarily concentrated in the Yangtzi valley region. Hubei province is the largest rapeseed producer in China followed by Anhui and Jiangsu provinces. These three provinces combined account for more than 40% of China's total rapeseed production.

China started producing double-low rapeseed¹ in large volumes from the mid 1990s. The quality double-low rapeseed production is concentrated in Hubei province and rapeseed produced in other provinces is mainly from traditional varieties or other varieties that cannot meet the quality specifications for double-low or single-low.

It is reported that in some areas crushers pay a small premium for double-low rapeseed as some feed mills understand the quality difference between canola meal and locally produced rapeseed meal. However, the general public has very little knowledge of the difference between canola oil and locally produced rapeseed oil.

Top Five Rapeseed Producers in China in 1999

Province	Total acreage (1,000 ha)	Total output (1,000 tons)	Ave yield (kg/ha)
Hubei	1003	1599	1594
Anhui	931	1522	1635
Jiangsu	518	1178	2272
Sichuan	689	1094	1587
Hunan	788	1009	1281
Total China	6898	10,131	1469

¹ Double-low rapeseed is a Chinese name for the newly developed rapeseed varieties that meet the quality specifications:

< 30 μ moles of aliphatic glucosinolates per gram of air-dry oil-extracted meal;

< 1 percent erucic acid in the oil.

There are also some single-low rapeseed varieties that have been developed. They have a low content of either glucosinolates or erucic acid

Peanut production is concentrated in the Yellow River area. Shandong is the largest peanut producer followed by Henan province, the two provinces together accounting for more than 45% of total peanut production in China.

Top Five Peanut Producers in China in 1999

Province	Total acreage (1,000 ha)	Total output (1,000 tons)	Average yield (kg/ha)
Shandong	860	3,160	3671
Henan	862	2,928	3394
Hebei	430	1,179	2740
Anhui	274	1,025	3731
Jiangsu	177	632	3568
Total China	4268	12,638	2961

Soybean production is concentrated in northeastern China. Heilongjiang province is by far the largest soybean producer and alone comprises more than 30% of total soybean production in China.

Top Five Soybean Producers in China in 1999

Province	Total acreage (1,000 ha)	Total output (1,000 tons)	Average yield (kg/ha)
Heilongjiang	2153	4,466	2074
Henan	569	1,152	2025
Anhui	478	1,005	2099
Shandong	492	969	1969
Inner Mongolia	736	826	1121
Total China	7961	14,250	1790

7. Oilseed crushing and processing industry

The oilseed crushing and processing industry in China can be divided into three major regional groupings. The first is located in northern China along the Bohai Bay. This group mainly processes domestically produced soybeans and some peanuts. The second group is located in the Yangtzi valley and processes primarily rapeseed. The third group is located in South China and processes mainly imported soybeans.

The modern oilseed crushing and processing industry in China started in the early 1990s. Prior to this there were few modern crushing and processing facilities in China and the traditional small crushers dominated China's oilseed crushing industry. Each county had some smaller crushers that could process a few tons of seed per day and some larger ones that could process up to 30-50 tons of seed per day. With the advent of the large scale crushers, most of these smaller crushers are either closed or running at partial capacity as they are unable to compete.

During the first half of 1990s, the oilseed crushing and processing business was very profitable, which attracted many new large crushing and processing facilities in the last 5-6 years. However, the rapidly expanding oilseed crushing and processing capacity in southern China in the past 5 years has resulted in excess capacity for the industry, growing imports of soybeans and rapeseed for crushing, and lower prices for edible oils in the past two years.

8. Outlook

It is anticipated that vegetable oil consumption in China will continue to increase at a healthy rate in line with the growth in incomes, perhaps in the order of 500-600,000 tons per year. Market demand should continue to be strong.

Domestic rapeseed production will likely continue to increase in the next few years. Quality double-low rapeseed production will be strongly promoted by the government and industry and if crushers pay a premium for the double-low rapeseed farmers will produce more.

Soybean production in China will in large part be determined by the international market prices of soybeans as import volumes are so large and market dominating. The lower international market price in recent years and relatively good quality of the imported soybeans has placed a lot pressure on the domestic soybean producers. If farmers cannot make money from producing soybeans they will use their land for alternative crops.

Another factor at play which may affect vegetable oil imports is the newly developed large oilseed crushing and processing capacity in China. The crushing industry with its overcapacity situation will be looking to import the raw material to crush to keep their plants running and as such may be less inclined to import crude oil.

9. Relevant government, trade associations

China State Grain Bureau

China State Grain Bureau is a government institution in charge of the macro control of grain and oil circulation, industry guidance, administration of state grain in storage under the leadership of the State Development Planning Committee.

The main responsibilities:

- To make mid-term and long-term plans on balancing grain and oil production and consumption, grain and oil distribution and storage, grain and oil import and export.
- To draft the grain and oil related laws, regulations, policies and inspect the implementation of these laws, regulations and policies; to approve large grain and oil related projects.
- To work together with the State Quality and Technology Inspection Bureau to make and implement industry standards.

- To provide guidelines for the grain and oil industry related education and training, to promote the application of new technologies.

Director General: Mr. Nie Zhenbang
Deputy Director General: Mr. Zhu Changguo
Email address: webmaster@chinagrains.com
Tel: 010-88384818

China National Vegetable Oil Association

The China National Vegetable Oil Association has about 300 members that covers all the major oil crushers/refiners, traders, importers and exporters and large warehouses in China. The association was spun off from the Grain Bureau some two years ago and does the coordination works for the industry and between the industry and government under the supervision of the China State Grain Bureau. It's main source of revenue is organizing seminars and promotional activities.

Vice Secretary General: Mr. Liu Wei
45 Fuxingmennei Street
Beijing, China
Tel: (86-10) 66052139
Fax: (86-10) 66038284

10. Licensed vegetable oil traders

Six state trading companies are currently licensed to import edible oil. However, under the WTO agreement other enterprises can now apply for trading rights and within 3 years all enterprises in China, foreign or domestic, will have the right to import and export. The six licenced companies are listed below but note that in fact only the first three companies are currently active in the vegetable oil trade.

China National Cereals, Oil & Foodstuff Import and Export Co. (COFCO)

Contact: Mr. Yu Xupo, Vice President of COFCO
Building A, Zhong Liang Square
Number 8, Jianguomennei Street
Beijing China
Tel: 86 10 6526 8888-2902

China National Native Products and Animal Byproducts Import & Export Co.

Contact: Mr. Zeng Hongming, Deputy General Manager
Number 208,
An Ding Men Wai Street
Beijing China
Tel: 86 10 6424-8899

China Cereals, Oil & Foodstuff Group

Contact: Mr. Gao Xiushan, Deputy General Manager
No 45, Fuxinmen Nei Dajie
Beijing, China
Tel: 86 10 6609-4412

China Resources Co.

Contact: Mr. Chen Shulin
F 27, Hua Run Building
Number 8, Jianguomen Bei Dajie
Beijing, China
Tel: 86 10 8519-2600 852-2879 7888

China Nam Kwong National Import & Export Co.

Contact: Mr Xi
Number 14, Dengshikou Dajie
Beijing, China
Tel: 86 10 6513-2227

China Liangfeng Cereals Import & Export Co.

Contact: Mr. Wang Baolin
F 13 East, Si Chuan Building
Number 1, Fuchenmenn Wai Dajie
Beijing, China
Tel: 86 10 6836-4861

11. Stand-alone oil refiners

A number of stand-alone vegetable oil crushers have been identified as listed below which may offer potential opportunities for Canadian exporters.

BEIJING EISEN-LUBAO OIL CO.LTD

Beijing Eisen-Lubao Oil Co. Ltd was setup in 1994 with a total investment of US\$18million. They have an advanced processing system which processes 300 tons of oil per day, about 90,000 ton per year. The main products are cooking oil and salad oil with the brand "Lubao" in both retail and bulk packaging. The quality is renowned in Beijing and they have won many awards by the Beijing government.

No. 58 Huang Ting Zi
Da Hong Men, Fengtai District
Beijing, China 100076
Contact: Mr. Yan, General Manager
Tel: 86 10 6798-2865 6798-5654
Fax: 86 10 6798-3525

BEIJING TONGYI EDIBLE OIL CO. LTD

The vegetable oil refinery Beijing Tongyi Edible Oil Co. Ltd. was established in 1992 with a total investment of US\$6 million as a joint-venture of Beijing Edible Oil Company and Taiwan Chi Huang Industries Co.Ltd. It has an annual refining oil capacity of 45,000 metric tons and a daily capacity of 150 metric tons. It also has storage capacity of more than 10 thousand metric tons. The main products of the company are Huoniao brand salad oil, Huoniao Sesame cooking oil, Huoniao peanut oil and Gubi brand sesame oil.

No.300 NanLi Huaifang Nanyuan Feng

Tai District

Beijing, China 100076

Contact: Mr Cui General Manager of Sales

Tel: 86 10 6791-1127

Fax: 86 10 6791-1367

Email: huoniao@public.bta.net.cn

SHANGHAI KERRY OILS AND GRAINS INDUSTRIAL CO.LTD

This company is a joint venture enterprise which processes and packages vegetable oils including cooking oil and salad oil which are marketed under five brands: "Jin Longyu", "Yuan Bao", "Carp", "Jia Long", "Wan Dailan". The total investment is US\$25million and annual output can reach 200,000 tons.

No 168 Dong Tang Lu

Pu Dong Xin District

Shanghai, China 201208

Contact: Pan Kunli, General Manager

Tel: 86 21 6846-2277

Fax: 86 21 6846-7008

BEI HAI OIL AND GRAIN INDUSTRIAL (TIANJIN) LTD

This company is a large joint venture enterprise with total investment is US\$43 million. The main business scope is producing consumer packages of cooking oil. The yearly output can reach 500,000 metric tons.

No.2. Hubei Lu, Tang Gu District

Tianjin, China

Contact: Zhang Zhentao, General Manager

Tel: 86 022 25350834

Fax: 86 022 2535-0314

SHANGHAI OILS COMPANY

This company is a large joint venture enterprise for processing refined cooking oil and salad oil with annual output capacity of refined oil of 120,000 tons.

No.479, Zhong Shan Nan Lu
Shanghai City, China
Contact: Mr Guo, General Manager
Tel: 86 021 6332-1662 6376-1662
Fax: 86 021 6378-1808

12. Some major oilseed crushers and processors

Dalian Nisshin Oil Mills, Ltd.

Established in September 1988, and located on Huanghai West Road of Dalian Economic and Technology Development Zone. It has a total investment of US \$40 million and registered capital of US\$22.5 million, 97.34% of which is from Japan and 2.66% from China. The facility has a floor area of 28,000 square meters. The main equipment is imported from Japan, Europe and the USA. The company can process 220,000M/T soybeans per year.

Zhejiang Xinshi Oils Stock Company, Ltd.

Zhejiang Xinshi Oils Stock Company, Ltd. was born of Deqing Xinshi Oils Factory, which was founded in 1949. It has now become a key enterprise in product processing as well as the largest rapeseed crusher in China and enjoys a high reputation in domestic and international business.

The company had assets of RMB 280 million and 600 employees at the end of 2000. The company is capable of processing 800,000 tons of rapeseed and soybeans (600,000 tons of which was imported from the USA, Australia, Europe and South American countries), 120,000 tons of wheat, and can produce 240,000 tons of rapeseed oil or salad rapeseed oil, 80,000 tons of rapeseed flour and 330,000 tons of rapeseed meal each year.

The total annual sales are about RMB 1020 million (\$C200 million). The main product, "Ruyi" brand second class rapeseed oil has had the title of Quality Products granted by Huzhou City, Zhejiang Province and the Grain Ministry of P. R. China for many years. The rapeseed meal is sold to Japan, Korea and Thailand. Currently, the company crushes 2800 tons of rapeseed daily and produces about 400 tons of refined rapeseed oil each day.

Address: No. 1 Tayuan Road, Xinshi Town, Deqing County, Zhejiang Province
Tel: 0572-8444605
Fax: 0572-8444731
Contact person: Zha Jialiang
General Manager: Zeng Xin

Nantong Bao Gang Oils and Fats Development Co. Ltd.

Nantong Bao Gang Oils and Fats Development Co. Ltd. is one of the largest oils and fats production and processing enterprises in China.

It imports 600,000 tons of rapeseed annually from Canada, France, Germany and Australia. It has advanced equipment introduced from Germany with the daily capacity to process 600 tons of rapeseed oil, and 1200 tons of rapeseed. Annual production of refined oil is 200 thousand tons and the annual export volume of rapeseed meal is 330 thousand tons.

It has invested 3.5 billion RMB in soybean processing and refined oil production. By the year 2002, it will become the largest refined oils and fats enterprise in Asia. By 2005, the company forecasts sales of 45 billion RMB (C\$9 billion).

Contact person: Huang Dahai, Manager of General Office
Tel: 0513-5102122

Zhangjiagang Eastern Ocean Grain and Oil Industry Co. Ltd.

Zhangjiagang Eastern Ocean Grain and Oil Industry Co. Ltd. has a total investment of US\$1.2 billion. At present, it is Asia's largest grain and oil processing enterprise with advanced technology and large scale operations. It has oil storage tanks with a capacity of 53,000 tons and has also constructed a dock with a loading capacity of 65,000 tons and annual loading capacity of 3 million tons.

Contact person: Zhang Gougui – Deputy Manager
Bonded District
Import and Export Product Processing District
Zhangjiagang, Jiangsu Province
Tel: (86-0520) 8381018
Fax: (86-0520) 8380755

List of Chinese oilseed crushers/processors														
NO #	Processing Plant Name	Owner	Location	Province	Region	Business Nature	Existing Capacity MT/day	Refining Capacity MT/day	Current situation	Soybean or rapeseed switch	Domestic use %	Imported soybeans %	00-01 import demand (TMT)	Telephone
1	Dalian Huanong	Domestics	Dalian	Liaoning	Northeast	soybean crush	2800	1000	operating	100%	30%	70%	500	86-411-726134
2	Dalian oil/fat General	State-owned	Dalian	Liaoning	Northeast	soybean crush	2000	300	operating	100%	30%	70%	800	86-411-270309
3	Dalian Huatai Oil	domestic	Dalian	Liaoning	Northeast	soybean crush	1200	300	operating	100%	30%	70%	400	86-411-630263
4	Jilin Deda	JV(Thai)	Dehui County	Jilin	Northeast	soybean crush	2000	350	operating	100%	40%	60%	1200	86-431-720300
5	Jinhai Oil	COFCO/Wilmar /ADM	Qinghuangdao	Hebei	North	soybean crush	3000	500	operating	50%	50%	50%	1000	86-65-323590
6	Tianjing Zhengda(CP)	JV(Thai)	Tianjing	Tianjing	North	soybean crush	1200	200	operating	100%	70%	30%	400	86-22-253291
7	Zhoukou oil (COFCO/ Wilmar/ADM	JV(Wilmar)	Zhoucui	Henan	North	soybean crush	1500	300	building	100%	50%	50%	700	86-65-323590
8	Kunhua Oil/Fat	Domestic	Qihe	Shandong	North	soybean crush	1100	200	operating	100%	50%	50%	500	86-531-641574
9	Shandong Cereal & Oil industry	Domestic	Jinan	Shandong	North	soybean crush	1200	350	operating	100%	50%	50%	500	86-531-699060
10	CP Lianyungang	JV (Thai)	Lianyungang	Jiangsu	Yangtze River	soybean/rapeseed	2000	300	operating	80%	50%	50%	1000	86-66-631054

NO #	continued Process plant name	owner	Location	Province	Region	Business Nature	Existing Capacity MT/day	Refining Capacity MT/day	Current situation	Soybean or rapeseed switch	Domestic use %	Imported soybeans %	00-01 import demand (TMT)	Teleph one
11	Shining Gold/Jin Guang	Singapore	Ningbo	Zhejiang	Yangtze River	soybean/rapeseed crush	1000	600	half operating	80%	50%	50%	1000	86-21- 636038 95
12	East-Ocean	JV(Kuok)	Zhangjiagang	Jiangsu	Yangtze River	soybean crush/trader	6000	600	expanding	75%	20%	80%	200	86-65- 323590 0
13	Liangchen Industry & Trading Co.	Domestic	Liangchen	Jiangsu	Yangtze River	soybean/rapeseed	1200	100	operating	60%	40%	60%	---	
14	Keary Oil/Fat	JV(Kuok)	Chengdu	Sichuan	Yangtze River	soybean/rapeseed	1200	300	operating	100%	40%	50%	500	86-65- 738862
15	Changxing Oil/Fat	Domestic	Changxi	Zhejiang	Yangtze River	soybean/rapeseed crush	1000	200	building	10%	30%	70%	---	86-572- 602296 2
16	Zhanjiang Huanong	Domestic	Zhanjiang	Guangdong	South	soybean crush	1200	250	operating	100%	10%	90%	1000	86-411- 726134
17	Fengyuan Industry JV(Dongling/Japan)	Domestic	Yangjiang	Guangdong	South	soybean crush	1200	250	operating	100%	10%	90%	1000	86-20- 829750
18	Dongguan Huanong	domestics	Dongguan	Guangdong	South	soybean crush	1500	300	building	100%	10%	90%	1500	86-411- 726134
19	Nantian Oil/Fat	JV(Kuok)	Shenzhen	Guangdong	South	soybean crush	1500	Nil	operating	100%	10%	90%	1200	86-65- 738862
20	Guanxi Fangchen	JV(Kuok)	Fanchen	Guanxi	South	soybean crush	2400	600	building	100%	10%	90%	2000	86-65- 323590
21	Cargill -PEC- Crushing plant	USA	Xinsha	Guangdong	South	soybean crush	3000	N/A	planning	100%	0	100%		86-21- 635488
22	Shantou Zhong xin oil	JV(Hong Kuang)	Shantou	Guangdong	South	soybean crush	2000	600	building	100%	0	100%	1000	86-754- 888504